

# What's New and Other Important Information for 2010

## Differences between California and Federal Law

In general, for taxable years beginning on or after January 1, 2010, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2009. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540 or 540NR), and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the tax booklets. Taxpayers should not consider the tax booklets as authoritative law.

**Conformity** – For updates regarding the following federal acts, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **conformity**.

- Health Care and Education Reconciliation Act of 2010.
- Patient Protection and Affordable Care Act.
- Small Business Jobs Act of 2010.

## 2010 Tax Law Changes/What's New

**Net Operating Loss** – For taxable years beginning in 2010 and 2011, California suspended the net operating loss (NOL) carryover deduction. Taxpayers may continue to compute and carryover NOLs during the suspension period. However, taxpayers with modified adjusted gross income of less than \$300,000 or with disaster loss carryovers are not affected by the NOL suspension rules.

Also, California modified the NOL carryback provision. For more information, see form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates, and Trusts.

**Mortgage Forgiveness Debt Relief Extended** – California law conforms, with modifications, to federal mortgage forgiveness debt relief for discharges occurring on or after January 1, 2009. Federal law limits the amount of qualified principal residence indebtedness to \$2,000,000 (\$1,000,000 for married filing separate). See federal Publication 544, Sales and Other Disposition of Assets, and federal Publication 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonment, for more information. California law limits the amount of qualified principal residence indebtedness to \$800,000 (\$400,000 for married/RDP filing separate) and debt relief to \$500,000 (\$250,000 for married/RDP filing separate).

**Hokie Spirit Memorial Fund Exclusion** – California law conforms to federal law to exclude from income any amount received from the Hokie Spirit Memorial Fund for the events at Virginia Polytechnic Institute and State University on April 16, 2007.

**Income Exclusion of Federal Energy Grants** – California law conforms to federal law to exclude from income any federal energy grants provided in lieu of federal energy credits.

**Charitable Contributions for 2010 Haiti Earthquake Disaster** – California law conforms to federal law which allows a 2009 charitable contribution deduction for cash contributions made after January 11, 2010, and before March 1, 2010, for the relief of victims in areas affected by the earthquake in Haiti on January 12, 2010.

**Tax Computation for Certain Children with Investment Income** – For taxable years beginning on or after January 1, 2010, California conforms to the provision

of the Small Business and Work Opportunity Tax Act of 2007 which increased the age of children to 18 and under or a student under age 24 for elections made by parents reporting their child's interest and dividends.

**Income Exclusion for In-Home Supportive Services (IHSS) Supplementary Payments** – For taxable years beginning on or after January 1, 2010, California law allows an exclusion from gross income for IHSS supplementary payments received by IHSS providers.

**New Home/First-Time Buyer Credit** – To claim the New Home/First-Time Buyer Credit of 2010 you must have received a Certificate of Allocation from the FTB. The credits were available if you purchased a qualified principal residence on or after May 1, 2010, and on or before December 31, 2010. Additionally, the New Home Credit is available if you purchase a qualified principal residence on or after January 1, 2011, and before August 1, 2011, pursuant to an enforceable contract executed on or before December 31, 2010. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **home credit** or get FTB Pub. 3549, New Home/First-Time Buyer Credit.

**Backup Withholding** – Beginning on or after January 1, 2010, with certain limited exceptions, payers that are required to withhold and remit backup withholding to the IRS are also required to withhold and remit to the FTB. The California backup withholding rate is 7% of the payment. For California purposes, dividends, interests, and any financial institutions release of loan funds made in the normal course of business are exempt from backup withholding.

If the payee has backup withholding, the payee must contact the FTB to provide a valid Taxpayer Identification Number, which is either the social security number (SSN) or the individual taxpayer identification number (ITIN), before filing the tax return. Failure to provide the SSN or ITIN may result in a denial of the backup withholding credit. For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **backup withholding**.

**Natural Heritage Preservation Credit** – The funding for the Natural Heritage Preservation Credit is available beginning January 1, 2010, until June 30, 2015.

**Same-Sex Marriages Outside the State of California** – On October 11, 2009, the Governor signed Senate Bill 54, which provides that a marriage between two persons who have entered into a same-sex marriage outside the State of California prior to November 5, 2008, that was valid by the laws of the jurisdiction in which the marriage was contracted, is valid in California. The bill also provides that a marriage between two persons who have entered into a same-sex marriage outside the State of California on or after November 5, 2008, that was valid by the laws of the jurisdiction in which the marriage was contracted have the same rights and responsibilities as spouses with the sole exception of the designation of "marriage."

Consequently, beginning in taxable year 2010, persons who have entered into a same-sex marriage outside the State of California that is valid according to the laws of the jurisdiction in which the marriage was contracted must file their California income tax return using either the joint or separate filing status. For more information, get FTB Pub. 776, Tax Information for Same-Sex Married Couples, or go to [ftb.ca.gov](http://ftb.ca.gov) and search for **same sex married couples**.

**Voluntary Contributions** – For taxable years beginning on or after January 1, 2010, you may contribute to the following new funds:

- Arts Council Fund
- CA Police Activities League (CALPAL) Fund
- CA Veterans Homes Fund
- Safely Surrendered Baby Fund

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# What's New and Other Important Information for 2010 *(continued)*

**San Bruno Explosion and Fire 2010** – For tax treatment information for victims of the explosion and fire in San Bruno county that occurred on September 9, 2010, get FTB Pub. 1034, Disaster Loss How to Claim a State Tax Deduction.

**Kern Wildfires 2010** – For tax treatment information for victims of wildfires in Kern county that occurred in July 2010, get FTB Pub. 1034.

**Baja California Earthquake 2010** – For tax treatment information for victims of the earthquake in Imperial county that occurred on April 4, 2010, get FTB Pub. 1034.

**California Winter Storms 2010** – For tax treatment information for victims of winter storms in Calaveras, Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Francisco, and Siskiyou counties that occurred from January 17, 2010, through February 6, 2010, get FTB Pub. 1034.

**Humboldt Earthquake 2010** – For tax treatment information for victims of the earthquake in Humboldt county that occurred on January 9, 2010, get FTB Pub. 1034.

**California Wildfires 2009** – For tax treatment information for victims of wildfires in Los Angeles, Monterey, and Placer counties that occurred in August 2009, get FTB Pub. 1034.

## Other Important Information

**Mandatory Electronic Payments** – You are required to remit all your payments electronically once you make an estimate or extension payment exceeding \$20,000 or you file an original tax return with a total tax liability over \$80,000 for any taxable year that begins on or after January 1, 2009. Once you meet this threshold, all subsequent payments regardless of amount, tax type, or taxable year must be remitted electronically. The first payment that would trigger the mandatory e-pay requirement does not have to be made electronically. Individuals that do not send the payment electronically will be subject to a one percent noncompliance penalty.

You can request a waiver from mandatory e-pay if one or more of the following is true:

- You have not made an estimated tax or extension payment in excess of \$20,000 during the current or previous taxable year.
- Your total tax liability reported for the previous taxable year did not exceed \$80,000.
- The amount you paid is not representative of your total tax liability.

Electronic payments can be made using Web Pay on FTB's website, electronic funds withdrawal (EFW) as part of the e-file return, or your credit card. For more information or to obtain the waiver form, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **mandatory epay**.

**Estimated Tax Payments** – Installments due for each taxable year beginning on or after January 1, 2010, shall be 30% of the required annual payment for the 1st required installment, 40% of the required annual payment for the 2nd required installment, no installment is due for the 3rd required installment, and 30% of the required annual payment for the 4th required installment.

Taxpayers with a tax liability less than \$500 (\$250 for married/RDP filing separately) do not need to make estimated tax payments.

**Registered Domestic Partners (RDP)** – Under California law, RDPs must file their California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status. RDPs have the same legal benefits, protections, and responsibilities as married couples unless otherwise specified.

If you entered into a same sex legal union in another state, other than a marriage, and that union has been determined to be substantially equivalent to a California registered domestic partnership, you are required to file a California income tax return using either the married/RDP filing jointly or married/RDP filing separately filing status.

For purposes of California income tax, references to a spouse, husband, or wife also refer to a California RDP, unless otherwise specified. When we use the initials RDP they refer to both a California registered domestic "partner" and a California registered domestic "partnership," as applicable. For more information on RDPs, get FTB Pub. 737, Tax Information for Registered Domestic Partners.

**Same-Sex Married Couples** – Married couples must file their California income tax returns using either the married/RDP filing jointly or married/RDP filing separately filing status. Same-sex couple marriages performed in California after 5:00 pm on June 16, 2008, and before November 5, 2008, are valid marriages for California purposes.

Beginning in taxable year 2010, persons who have entered into a same-sex marriage outside the State of California that is valid according to the laws of the jurisdiction in which the marriage was contracted must file their California income tax return using either the joint or separate filing status. For more information, get FTB Pub 776, Tax Information for Same-Sex Married Couples or go to [ftb.ca.gov](http://ftb.ca.gov) and search for **same sex married couples**.

**Direct Deposit Refund** – You can request a direct deposit refund on your tax return whether you e-file or file a paper tax return. Be sure to fill in the routing and account numbers carefully and double-check the numbers for accuracy to avoid it being rejected by your bank.

**ReadyReturn** – If your filing status is single or head of household and your income is only from wages, you may qualify for ReadyReturn. It simplifies the filing process by pre-filling a tax return with information the state already has. For more information and to see if you qualify, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **readyreturn** or call 800.338.0505.

**Withholding on California Real Estate** – For transactions occurring on or after January 1, 2007, that require withholding, a seller of California real estate may elect an alternative to withholding 3 1/3% (.0333) of the total sales price. The seller may elect an alternative withholding amount based on the maximum tax rate for individuals, corporations, or banks and financial corporations, as applied to the gain on the sale. The seller is required to certify under penalty of perjury the alternative withholding amount to the FTB. For installment sales occurring on or after January 1, 2009, the buyer is required to withhold on each installment sale payment if the sale of California real property is structured as an installment sale.

**Tax Shelter** – If the individual was involved in a reportable transaction, including a listed transaction, the individual may have a disclosure requirement. Attach federal Form 8886, Reportable Transaction Disclosure Statement, to the back of the California tax return along with any other supporting schedules. If this is the first time the reportable transaction is disclosed on the tax return, send a duplicate copy of the federal Form 8886 to the address below. The FTB may impose penalties if the individual fails to file federal Form 8886, or fails to provide any other required information. A material advisor is required to provide a reportable transaction number to all taxpayers and material advisors for whom the material advisor acts as a material advisor.

ATSU 398 MS F385  
FRANCHISE TAX BOARD  
PO BOX 1673  
SACRAMENTO CA 95812-9900

For more information, go to [ftb.ca.gov](http://ftb.ca.gov) and search for **tax shelters**.